

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

PRS-01 L-02 H-02 SEC-01 /078 W  
----- 127957

R 140756Z APR 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 7559

INFO AMCONSUL HONG KONG

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

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HONG KONG FOR TREASURY REPRESENTATIVE

EO 11652: N/A

TAGS: EINV BEXP ID

SUBJ: NATIONALIZING-INDONESIAN STYLE

REF: JAKARTA A12 DATED FEBRUARY 7, 1975

BEGIN UNCLASSIFIED

1. EMBASSY HAS TRANSMITTED AIRGRAM A-52 DATED APRIL 8  
ENTITLED "NATIONALIZING-INDONESIAN STYLE." THIS IS  
COMPANION PIECE TO A-12 OF FEBRUARY 7 ON INDONESIAN  
INVESTMENT CLIMATE AND GIVES OUTLOOK FOR REALIZATION  
OF INDONESIA'S GOAL OF EVENTUAL 51 PERCENT ETHNIC INDONESIAN  
OWNERSHIP OF FOREIGN AND DOMESTIC BUSINESS. AIRGRAM

SHOULD ASSIST STATE AND COMMERCE TO ADVISE PROSPECTIVE  
US INVESTORS ON PRACTICAL EFFECT AND MEANS OF  
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COMPLYING WITH THIS INDONESIAN POLICY GOAL AND ALSO

SIGNALS IMPROVED REALISM AND PRAGMATISM WITH WHICH  
GOI OFFICIALS ATTEMPTING TO IMPLEMENT IT.

2. SUMMARY OF AIRGRAM AS FOLLOWS: IN 1974 INDONESIA  
ANNOUNCED POLICY OF REQUIRING 51 PERCENT INDIGENOUS  
INDONESIAN "PRIBUMI" OWNERSHIP (NOT NECESSARILY  
MANAGEMENT CONTROL) OF FOREIGN AND DOMESTIC INVESTMENTS  
WITHIN TEN YEARS. INFORMATION TO GUIDE INVESTORS IN  
COMPLYING WITH THIS POLICY IS LIMITED. THIS MESSAGE  
IDENTIFIES MOST PRACTICAL APPROACHES TO COMPLIANCE.

3. PARTNERSHIP ARRANGEMENTS HAVE DRAWBACKS WHICH LIMIT  
THEIR USE. STOCK MARKET OF SUFFICIENT SIZE WILL NOT  
DEVELOP RADIDLY ENOUGH TO BE A SIGNIFICANT CONTRIBUTOR  
OR BE OF SUFFICIENT BREADTH AND DEPTH TO PROVIDE A  
FAIR VALUE FOR SHARES. IN MAJOR PROJECTS, MINING  
AND FORESTRY, THE MAIN MEANS OF INDONESIANIZING WILL  
BE VENTURES WITH STATE ENTERPRISES.

4. FOR GREAT MAJORITY OF MEDIUM AND SMALL INVESTORS,  
MOST PRACTICAL MEANS OF COMPLIANCE IS USE OF TRUSTEE-  
SHIP ARRANGEMENTS. UNDER THESE, INVESTORS DESIGNATE  
LOCAL NON-BANK FINANCIAL INSTITUTIONS TO HOLD SHARES  
IN TRUST FOR EVENTUAL SALE TO PRIBUMI. WE EXPECT THIS  
TO BECOME THE PREDOMINANT MEANS OF COMPLIANCE FOR THE  
FORSSEABLE FUTURE. GOVERNMENT FINANCED STOCK PURCHASE  
TRUST MAY BECOME ANOTHER.

5. GOI INTERAGENCY COMMITTEE PRESENTLY CONCENTRATING  
INTENSIVELY AT MINISTER OF PLANNING WIDJOJO'S  
REQUEST ON PRODUCING AGREED LISTS, BY INDUSTRY, OF  
OFFICIAL GOI PRIVATE SECTOR INVESTMENT PRIORTIES IN  
FOUR CATEGORIES--THOSE;(1) TO RECEIVE HIGHEST  
PRIORITY AND FULL INVESTMENT INCENTIVES; (2) DEVELOP-  
MENTAL PROJECTS ELGIBLE FOR SOME INVESTMENT IN-  
CENTIVES; (3) ACCEPTABLE BUT NOT QUALIFYING FOR  
INCENTIVES AND (4) CLOSED TO FURTHER INVESTMENT.  
INVESTMENT BOARD VICE CHAIRMAN EXPECTS THAT THIS  
EFFORT, UNSUCCESSFUL IN SEVERAL PREVIOUS INSTALLATINS,  
HAS ENOUGH PRIORITY THAT PUBLISHED LIST MAY BE FORTH-  
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COMING WITHIN NEXT MONTH OR TWO--POSSIBLY PRIOR TO  
IGGI MEETING. END UNCLASSIFIED

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6. EMBASSY OMITTED FROM SUBJECT AIRGRAM DEVELOPMENTS  
WHICH GOI DOES NOT WISH PUBLICIZED BUT WHICH  
DEPARTMENT OF COMMERCE AND STATE DEPARTMENT MAY CONVEY

ORALLY TO INTERSTED INVESTORS:

- A) MAIN MESSAGE OF SUBJECT AIRGRAM IS THAT GOI OFFICIALS WISELY RECOGNIZED UMREALITY OF ACCOMPLISHING 51 PERCENT ETHNIC OWNERSHIP WITHIN 10 YEAR PERIOD.
- B) IN RECOGNITION OF THIS FACT OF LIFE, GOVERNMENT NOW PURSUING MORE FLEXIBLE APPROACH EVEN THAN INDICATED IN AIRGRAM. FOR EXAMPLE, GOVERNMENT HAS RECENTLY REACHED AGREEMENTS WHICH PERMIT INVESTORS 13 TO 18 YEARS FOR ACCOMPLISHMENT OF 51 PERCENT, DESPITE PUBLIC POSITION THAT 10 YEARS REQUIRED. MOREOVER TO PROVIDE ADDED FLEXIBILITY FOR INTERIM "SECOND BEST" SOLUTIONS, GOVERNMENT IS CONDONNING--BUT NOT ENCOURAGING-- INVESTOR TRANSFERS OF SHARES IN TRUST TO THEIR ETHNIC INDONESIAN LAWYERS OR ACCOUNTANTS, IN ADDITION TO NON-BANK FINANCIAL IVSTITUTIONS.
- C) IN SUM, ON THIS ISSUE AT LEAST, GOVERNMENT HAS RETURNED TO PRAGMATIC STYLE OF PRE-1973.

7. IN OTHER RESPECTS, HOWEVER, INVESTMENT CLIMATE DEVELOPMENTS ARE MORE DISTURBING THAN INDICATED IN UNCLASSIFIED INVESTMENT CLIMATE AIRGRAM A-12. FOR EXAMPLE, INVESTMENT BOARD WHICH WAS INTENDED TO IMPROVE PROJECT APPROVAL PROCUDURES, NOW ADDS TO THE PROBLEM, AS IT HAS BECOME INDECISIVE, POLITICIZED AND EVEN SOMEWHAT CORRUPT IN HANDLING NEW INVESTMENT APPLICATIONS. MOREOVER BUREAUCRATIC HARRASSMENT OF INVESTORS CONTINUES TO MOUNT, WITH PRESSURES BEING EXERTED ESPECIALLY THROUGH REFUSALS OF WORK PERMITS FOR EXPATRIATES AND SOMETIMES COERCIVE ASSESSMENTS OF BOTH PERSONAL AND CORPORATETAX LIABILITIES

8. OVERALL, HOWEVER, EMBASSY STILL ENCOURAGES AMERICAN INVESTMENT IN INDONESIA, BUT ON SELECTIVE LIMITED OFFICIAL USE

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BASIS AND GENERALLY FOR LARGER PROJECTS WHERE MANY PROFITABLE OPPORTUNITIES REMAIN. BUSINESS DIFFICULTIES SOMETIMES DISADVANTAGE INVESTORS WITH LESS THAN FIVE MILLION DOLLAR PROJECTS. NEW PRAGMATISM IN APPLICATION OF 51 PERCENT ETHNIC OWNERSHIP REMOVES THIS AS A SIGNIFICANT DETERRENT TO PROSPECTIVE INVESTORS IN EMBASSY JUDGEMENT.

NEWSOM

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## Message Attributes

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